PHILIP ANGELIDES
Treasurer
State of California

February 25, 2005

Charles E. Grassley, Chairman
Senate Finance Committee
219 Dirksen State Office Building
Washington, D.C. 20510-6200

Max Baucus, Ranking Member
Senate Finance Committee
219 Dirksen State Office Building
Washington, D.C. 20510-6200

Dear Gentlemen:

As California State Treasurer, I am the chair of the California Debt Limit Allocation Committee (CDLAC) that allocates tax-exempt private activity bond authority for Single Family programs throughout California. I also serve on the board of the California Housing Finance Agency, the largest issuer of Single Family Program bonds. I write this letter to oppose two specific recommendations outlined in Options To Improve Tax Compliance and Reform Tax Expenditures relative to Single Family programs.

The first recommendation to repeal the two percent de minimis exception will strike a blow to efforts to help low to middle income families become homeowners that are financed with mortgage revenue bonds. Without the two percent exception, corporations may be likely to reduce their tax-exempt bond purchases. Higher bond yields may have to be paid and higher mortgage rates will result if major buyers of MRBs are forced to limit their activity or withdraw from the market. Higher mortgage rates will hinder, not help, the goal of homeownership for all Americans, particularly those of low and moderate incomes.

The second recommendation requires states and localities to issue one dollar of MCCs for every four dollars of MRBs they issue. The report cites CDLAC's Single Family Program as support for the recommendation that MCCs provide a viable alternative to the issuance of qualified mortgage bonds.

The report fails to recognize critical facts associated with the California's MRB and MCC programs. MRB programs provide significant benefit to first time homebuyers. MRB programs recycle bond proceeds allowing multiple loans with the same dollar of bond authority. MRB programs leverage tax-exempt dollars with taxable financing. Localities elect to administer MCC programs based on their understanding of demand for MCCs in their

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community. The JCT proposal will take flexibility and decision making away from states and localities that know the needs of their local communities best, and it will make it more difficult to provide homeownership opportunities.

The single family housing program, financed with tax-exempt bonds, is a critical tool for providing homeownership to low and moderate first time homebuyers in California. I urge you not to approve the recommended proposals that would negatively impact this important and successful program.

Sincerely,

Phil Angelides
State Treasurer